Transit Authority of Northern Kentucky

Financial Statements with Supplementary Information
June 30, 2016 and 2015, and
Independent Auditors' Report

TRANSIT AUTHORITY OF NORTHERN KENTUCKY
June 30, 2016 and 2015

Contents

BARNES DENNIG
Accounting • Tax • Business Insight

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Independent Auditors' Report

To the Board of Directors
Transit Authority of Northern Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Transit Authority of Northern Kentucky (TANK), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise TANK's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of TANK as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditors' Report
(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 - 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the TANK's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 6, 2016, on our consideration of TANK's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TANK's internal control over financial reporting and compliance.

Barnes, Dennig & Co., Ltd.

October 6, 2016
Crestview Hills, Kentucky

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Management's Discussion and Analysis
Year Ended June 30, 2016 – Unaudited

This discussion and analysis provides key information from management highlighting the overall financial performance of the Transit Authority of Northern Kentucky (the "Authority" or "TANK") for the year ended June 30, 2016. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the financial statements as a whole.

Financial Highlights

Major financial highlights for fiscal year 2016 are listed below:

- ✓ The Authority's total net position at the end of 2016 was $31,604,983, which represents an increase of $364,315, or 1.2%, compared to the balance at the end of 2015.
- ✓ Operating revenue for the year was $5,019,379, which represents an increase of $30,095 or 0.6% over 2015.
- ✓ Operating expenses for the year (excluding depreciation and grant pass-throughs) were $21,940,771 which represents an increase of $33,742, or 0.2%, over 2015;
- ✓ Non-operating revenues, including federal, state and local reimbursements (excluding grant pass-throughs), were $16,921,391 in 2016, which represents an increase of $3,646, or 0.02%, compared to 2015.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which includes the basic financial statements and the notes to the financial statements. This report contains supplementary information concerning the Authority's net position and changes in net position in addition to the basic financial statements themselves.

Required Financial Statements

The financial statements of the Authority are designed to provide readers with a broad overview of the Authority's finances in a manner similar to private-sector business. The balance sheet presents financial information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information about how the Authority's net position changed during the fiscal year. All changes in net position are reported as soon as the event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Management's Discussion and Analysis
Year Ended June 30, 2016 – Unaudited
(Continued)

Net Position for the periods ending June 30, 2016 and 2015

The following table presents a condensed summary of the Authority's overall financial position at June 30, 2016 compared to June 30, 2015:

	2016	2015
Current assets	$ 7,980,331	$ 7,558,645
Restricted assets	349,357	333,640
Capital assets	31,025,933	30,494,707
Total assets	39,355,621	38,386,992
Current liabilities	7,362,038	6,830,824
Restricted liabilities	388,600	315,500
Total liabilities	7,750,638	7,146,324
Net Position		
Investment in capital assets	31,025,933	30,494,707
Restricted	(39,243)	18,140
Unrestricted	618,293	727,821
Total net position	$ 31,604,983	$ 31,240,668

As noted earlier, net position over time may serve as a useful indicator of the Authority's financial position. As of June 30, 2016, the Authority's total assets exceeded total liabilities by $31,604,983, which is an increase in net position of $364,315, or 1.2%, over 2015.

The largest portion of the Authority's net position is its investment in capital assets. Capital assets include land and land improvements, revenue producing and service equipment, buildings and structures, shop equipment, office furnishings and computer equipment. The Authority uses these capital assets to provide public transportation service in Northern Kentucky and Downtown Cincinnati. These assets are not available to liquidate liabilities or for other spending. The Authority's investment in capital assets as of June 30, 2016, amounts to $31,025,933, net of accumulated depreciation, which is an increase of $531,226, or 1.7%, over 2015. Major capital asset expenditures during 2016 included primarily the purchase of 10 new 40-foot, low floor buses at a cost of approximately $3,893,000 and the purchase of 6 new 30-foot, RAMP buses at a cost of approximately $428,000 in 2016.

These additions were offset by depreciation expense for the year of $4,488,730.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Management's Discussion and Analysis
Year Ended June 30, 2016 – Unaudited
(Continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position

The following table presents a condensed summary of the Authority's activities during fiscal year 2016 and 2015 and the resulting change in net position:

	2016	2015
Operating revenues	$ 5,019,379	$ 4,989,284
Operating expenses other than depreciation	21,940,770	21,907,029
Depreciation	4,488,731	4,532,272
Total operating expenses	26,429,501	26,439,301
Operating loss	(21,410,122)	(21,450,017)
Non-operating revenues, net	16,921,391	16,917,745
Net loss before capital grant activity	(4,488,731)	(4,532,272)
Capital grant revenue	4,853,046	3,941,618
Change in net position	364,315	(590,654)
Net position, beginning of year	31,240,668	31,831,322
Net position, end of year	$ 31,604,983	$ 31,240,668

Operating Revenues

The Authority's operating revenues were $5,019,379 in 2016, which represents an increase of $30,095, or 0.6% compared to 2016. Although consistent with operating revenues compared to the prior year, there was a shift during the year in ridership resulting in an increase in reverse-commute services (metro area to suburban area) offset by a decline in park-and-ride services (suburban areas to metro area) during 2016.

Operating Expenses

The Authority's operating expenses other than depreciation were $21,940,771 in 2016, which represents an increase of $33,742, or 0.2%, compared to 2015. Although consistent with operating expenses compared to the prior year, there was an decrease in fuel prices in 2016 that was offset by an increase in bus operation costs (hours of service and mileage) as a result of the expansion of the reverse-commute services in 2016.

Non-Operating Revenues

In 2016, non-operating revenues were $16,921,391, which represents an increase of $3,646, or 0.02%, from 2015. Non-operating revenues are consistent with those of the prior year.

Request for Additional Information

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the TANK's finances and to show TANK's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Transit Authority of Northern Kentucky, 3375 Madison Pike, Ft. Wright, Kentucky, 41017.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Balance Sheets
June 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$ 3,126,559	$ 3,178,304
Short-term investments	50,025	738,199
Certificates of deposit	4,206,858	3,032,311
Receivables:		
Trade	167,645	179,695
Operating grants and reimbursements	68,905	32,567
Materials and supplies inventory	343,610	378,500
Prepaid expenses	16,729	19,069
Total current assets	7,980,331	7,558,645
Restricted assets:		
Cash and cash equivalents	338,955	330,948
Capital assistance receivable	10,402	2,692
Total restricted assets	349,357	333,640
Capital assets:		
Land	2,252,930	2,252,930
Construction in progress	230,160	19,515
Buildings and improvements	11,847,080	11,721,670
Transportation equipment	46,738,531	42,407,432
Other equipment	9,483,654	9,585,991
Less accumulated depreciation	(39,526,422)	(35,492,831)
Total property and equipment, net	31,025,933	30,494,707
Total assets	$ 39,355,621	$ 38,386,992

See accompanying notes to financial statements

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Balance Sheets (Continued)
June 30, 2016 and 2015

	2016	2015
Liabilities and Net Position		
Current liabilities:		
Advances from local governments	$ 4,280,577	$ 3,717,548
Advances from state governments	1,654,189	1,463,489
Accounts payable	237,502	278,097
Accrued payroll and payroll taxes	259,603	390,994
Other accrued expenditures	930,167	980,696
Total current liabilities	7,362,038	6,830,824
Restricted liabilities:		
Accrued liability for accident claims	388,600	315,500
Total restricted liabilities	388,600	315,500
Total liabilities	7,750,638	7,146,324
Net Position		
Investment in capital assets	31,025,933	30,494,707
Restricted	(39,243)	18,140
Unrestricted	618,293	727,821
Total net position	$ 31,604,983	$ 31,240,668

See accompanying notes to financial statements

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Passenger fares	$ 3,695,103	$ 3,761,531
Special transit fares	850,903	844,603
Advertising revenues	473,373	383,150
Total operating revenues	5,019,379	4,989,284
Operating expenses:		
Labor	10,954,131	10,423,507
Employee benefits	5,690,705	5,393,472
Materials and supplies	2,931,433	3,587,913
Services	732,841	893,695
Utilities	242,439	273,249
Casualty and liability insurance	591,129	506,105
Leases and rentals	283,182	264,997
Fuel taxes	218,691	253,405
Miscellaneous	296,219	310,686
Total operating expenses	21,940,770	21,907,029
Operating loss before depreciation	(16,921,391)	(16,917,745)
Depreciation expense:		
On assets acquired with capital grants	4,488,731	4,532,272
Operating loss	(21,410,122)	(21,450,017)
Non-operating revenues:		
Federal grants and reimbursements	1,397,862	1,706,357
Commonwealth of Kentucky grants and reimbursements	249,219	284,953
Local grants	15,167,840	14,838,298
Investment income	71,439	48,806
Gain on disposal of capital assets	31,551	35,946
Other non-operating revenue	3,480	3,385
Total non-operating revenues	16,921,391	16,917,745
Net loss before capital grant activity	(4,488,731)	(4,532,272)
Capital grant revenue	4,853,046	3,941,618
Change in net position	364,315	(590,654)
Net position, beginning of year	31,240,668	31,831,322
Net position, end of year	$ 31,604,983	$ 31,240,668

See accompanying notes to financial statements

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received from customers	$ 5,031,429	$ 4,936,710
Cash payments to suppliers for goods and services	(5,226,199)	(6,290,992)
Cash payments to employees for services	(11,085,522)	(10,377,558)
Cash payments for employee benefits	(5,741,234)	(5,264,426)
Net cash used in operating activities	(17,021,526)	(16,996,266)
Cash flows from non-capital financing activities		
Operating grants received	17,568,650	17,489,830
Other	3,480	3,385
Net cash provided by non-capital financing activities	17,572,130	17,493,215
Cash flows from capital and related financing activities		
Capital grants received:		
Federal	4,520,861	4,638,022
State	288,137	284,891
Proceeds from sale of capital assets	31,551	35,946
Acquisition and construction of capital assets	(5,019,957)	(4,329,298)
Net cash provided (used) by capital and related financing activities	(179,408)	629,561
Cash flows from investing activities		
Purchases of investments	(1,210,000)	(945,000)
Proceeds from sale of investments	795,066	-
Net cash used in investing activities	(414,934)	(945,000)
Net change in cash and cash equivalents	(43,738)	181,510
Cash and cash equivalents, beginning of year	3,509,252	3,327,742
Cash and cash equivalents, end of year	$ 3,465,514	$ 3,509,252
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	$ (21,410,122)	$ (21,450,017)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	4,488,731	4,532,272
Changes in assets and liabilities:		
Accounts receivable - trade	12,050	(52,574)
Materials and supplies inventory	34,890	31,898
Prepaid expenses	2,340	17,147
Accounts payable	(40,595)	(256,687)
Accrued payroll and payroll taxes	(131,391)	45,949
Other accrued expenditures	(50,529)	129,046
Accrued accident claims	73,100	6,700
Net cash used in operating activities	$ (17,021,526)	$ (16,996,266)

See accompanying notes to financial statements

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Notes to Financial Statements

NOTE 1 ORGANIZATION AND DEFINITION OF THE ENTITY

The Transit Authority of Northern Kentucky (the "Authority" or "TANK") was created pursuant to section 96A of the Kentucky Revised Statute for the purpose of providing the public transportation in Boone, Campbell and Kenton Counties. As a political subdivision, it is distinct from, and is not an agency of the State of Kentucky, or any other local governmental unit. The Authority is not subject to federal or state income taxes.

The Authority has adopted the provisions of Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), "The Financial Reporting Entity," as amended by GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units (an amendment of GASB Statement No. 14)." Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. Under the criteria specified in Statement No. 14 and 39, the Authority has no component units nor is it considered a component unit of any other governmental entity. The Authority is, however, considered to be a related organization to the counties of Boone, Campbell and Kenton (collectively the "Counties") by virtue of the County/TANK agreements (see Notes 2 and 6) and the fact that the Authority's Board of Directors is appointed by the Judge Executives of their respective county.

These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization nor are the Counties accountable for the Authority. This is evidenced by the fact that the Authority is a legally and fiscally separate and distinct organization under the provisions of the Kentucky Revised Statute.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Authority follows the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. The measurement focus is on determination of net income, financial position and cash flows. All transactions are accounted for in a single enterprise fund.

Budgetary Basis of Accounting

The Authority prepares an annual budget for internal use covering the period July 1 through June 30. A significant funding source of the Authority is federal and local grants that have grant periods that may or may not coincide with TANK's fiscal year. These grants normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

The TANK's Board of Directors formally approves the annual budget with emphasis on complying with grant budgets, terms and conditions on a grant-by-grant basis. These terms and conditions usually specify the period during which costs may be incurred and outline budget restrictions or allowances. Although the annual budget is reviewed and approved by the Authority, it is not a legally adopted budget.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all highly liquid investments (including restricted assets) with maturity, at the date of purchase, of three months or less to be cash equivalents.

Investments

The Authority has adopted the provisions of GASB Statement No. 72, "Fair Value Measurement and Application." Accordingly, the Authority's investments are stated at fair value (using the three-level hierarchy of inputs to valuation techniques) in the accompanying balance sheets and the change in the fair value of the investments is recorded as investment income along with the interest earned on the investments. Certificates of deposit are state at the lower of cost or fair value.

Materials and Supplies Inventory

Materials and supplies inventory are stated at cost using the average cost method. Inventory generally consists of maintenance parts and supplies for rolling stock, other transportation equipment and fuel.

Capital Assets

Property, facilities and equipment are stated at historical cost. The cost of normal maintenance and repairs is charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related properties.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, as follows:

Buildings and improvements	20-40 years
Transportation equipment	5-12 years
Other equipment	3-15 years

Depreciation recognized on assets acquired or constructed through grants externally restricted for capital acquisitions is closed to the appropriate contributed capital account. Net loss adjusted by the amount of depreciation on fixed assets acquired on this manner is closed to accumulated net assets.

Restricted Assets

Restricted assets consist of monies and other resources, the use of which is legally restricted or board designated for the following purposes:

- Self-insurance; catastrophic losses

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Revenue, Receivables and Advances from Local Governments

The Authority considers passenger fares, special transit and bus advertising revenues as operating revenues. Non-operating revenues are subsidies received from federal, state and local sources. Expenses incurred for the daily operations of the transit system are considered operating expenses. Passenger fares are recorded as revenue at the time services are performed and revenues pass through the farebox.

The Authority grants credit to advertising customers and passenger groups. The Authority considers all accounts receivable to be collectible; therefore, an allowance for doubtful accounts is not considered necessary by management. Accounts are charged to bad debt expense at the time they are determined to be uncollectible.

The Federal Transit Administration ("FTA") provides financial assistance and makes grants directly to the Authority for operation and acquisition of property, facilities and equipment. The Kentucky Transportation Cabinet ("Cabinet") provides reimbursement for a portion of the fuel tax paid by the Authority and provides grants for the acquisition of property, facilities and equipment. Operating grant awards made on the basis of entitlement periods are recorded as grant receivables and revenues over the entitlement period. Cabinet grants for the acquisition of property, facilities and equipment (reimbursement type grants) are recorded as grants receivable and credited to contributed capital when the related qualified expenditures are incurred.

Boone, Campbell and Kenton counties have signed agreements with the Authority to provide capital and operating assistance. Campbell and Kenton counties fund their portion from revenues of a payroll tax. Boone County funds its assistance from its general fund. Operating assistance is provided in an amount equal to the Authority's net loss before such assistance, excluding depreciation and losses (as defined) on the disposal of assets purchased with capital grants. Amounts advanced in excess of the net loss before such assistance are recorded as an advance from local governments (See Note 6). Capital assistance provided represents the Authority's matching local share for property and equipment acquisitions under federal grants.

Historically, differences between expenditures incurred and amounts received have been insignificant. Accordingly, no provision for uncollectible amounts is considered necessary by management. Capital assistance receivable from the local counties is adjusted for any differences determined to be uncollectible and charged to bad debt expense. For the years ended June 30, 2016 and 2015, all receivables were deemed collectible and there was no bad debt expense.

Compensated Absences

The Authority accrues vacation as earned by its employees. Because rights to sick pay do not vest, TANK recognizes such costs when they are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

Advertising and sales promotion costs are expensed as incurred. Advertising expense totaled $162,997 and $165,394 for the years ended June 30, 2016 and 2015, respectively, and is included in miscellaneous operating expenses in the statement of activities.

Nonexchange Transactions

The Authority follows GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions." In general, GASB Statement No. 33 establishes accounting and financial reporting standards about when to report the results of nonexchange transactions involving financial or capital resources. In a nonexchange transaction, an entity gives (or receives) value without directly receiving or giving equal value in return. The Authority's principal nonexchange transactions involve the receipt of monies from federal, state and local grants for operating assistance as well as the acquisition of property, facilities and equipment. Substantially all of the Authority's nonexchange transactions represent reimbursement-type grants, which are recorded as revenue in the period the related expenditures are incurred, and are recorded as deferred revenue until the expenditures are incurred.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 3 CASH AND INVESTMENTS

The investment and deposit of Authority monies is governed by the provisions of the bylaws of the Authority and the Kentucky Revised Statute. In accordance with these provisions, only banks located in Kentucky and domestic building and loan associations are eligible to hold public deposits. The provisions also permit the Authority to invest its monies in certificates of deposit, savings accounts, money market accounts, obligations of the U.S. Treasury and of its agencies and instrumentalities, repurchase agreements and the State of Kentucky Treasurer's investment pool.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities the face value of which is at least 100% of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which repurchase agreements are based. These securities must be obligations of or guaranteed by the United States of America and mature or be redeemable within five years of the date of the related repurchase agreement.

NOTE 3 CASH AND INVESTMENTS (Continued)

The cash and cash equivalents, short-term investments, and certificates of deposit consisted of the following for the years ended June 30:

	2016	2015
Cash	$ 3,126,559	$ 3,178,304
Restricted cash and cash equivalents	338,955	330,948
Total cash and cash equivalents	3,465,514	3,509,252
Certificates of Deposit	4,206,858	3,032,311
U.S. Government Money Market Funds	50,025	25,239
U.S. Government Agency Bonds	-	712,960
Total short-term investments and certificates of deposit	4,256,883	3,770,510
Total cash and investments	$ 7,722,397	$ 7,279,762

NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Authority's financial instruments are as follows for the years ended June 30, 2016 and 2015:

	2016	2015
Level 2:		
Money market funds	$ 50,025	$ 25,239
Fixed income funds:		
US Government Agency Bonds	-	712,960
Total investments recorded at fair value	$ 50,025	$ 738,199

There are no valuations using Level 1 or Level 3 inputs. If quoted market prices are not available, then fair values are estimated using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include money market funds, and U.S. Government Agency Bonds.

Investment income consisted of the interest and dividends earned on certain investments. Investment income was $71,439 and $48,806 for the years ended June 30, 2016 and 2015, respectively.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

Business-Type Activities	Balance June 30, 2015	Additions	Deductions	Balance June 30, 2016
Land	$ 2,252,930	$ -	$ -	$ 2,252,930
Construction in progress	19,515	210,645	-	230,160
Buildings and improvements	11,721,670	125,410	-	11,847,080
Revenue vehicles	39,491,343	4,513,834	256,459	43,748,718
Transportation equipment	2,916,089	95,768	22,044	2,989,813
General equipment	9,585,991	74,300	176,637	9,483,654
Totals at historical cost	65,987,538	5,019,957	455,140	70,552,355
Less accumulated depreciation:				
Buildings and improvements	7,778,148	247,590	-	8,025,738
Revenue vehicles	20,771,685	3,324,844	256,459	23,840,070
Transportation equipment	1,865,599	250,248	22,044	2,093,803
General equipment	5,077,399	666,049	176,637	5,566,811
Total accumulated depreciation	35,492,831	4,488,731	455,140	39,526,422
Business-type activities capital assets - net	$ 30,494,707	$ 531,226	$ -	$ 31,025,933

NOTE 6 ADVANCES FROM LOCAL GOVERNMENTS

Advances from local governments at June 30 are comprised of the following:

	2016	2015
County:		
Boone	$ 634,277	$ 486,257
Campbell	1,939,776	1,792,197
Kenton	1,706,524	1,439,094
Total	$ 4,280,577	$ 3,717,548

NOTE 7 PENSION PLAN

The Authority contributes toward pension benefits for substantially all salaried and hourly employees through a defined contribution plan (the "Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate after completing six months of service. Beginning January 1, 2016 and 2015, the agreement between the Authority and the Amalgamated Transit Union Local No. 628 requires the Authority to pay the Trustee 5.6% and 5.5% of the highest paid senior maintenance employees weekly wages (based upon a 40 hour week) to be adjusted each January, for each full time eligible employee carried on its payroll who has actually made contributions for that week, respectively.

NOTE 7 PENSION PLAN (Continued)

The employer contribution for each part-time employee is 2.80% and 2.75%, respectively. Each eligible employee shall pay the Trustee 4.8% and 4.7% of the highest paid senior maintenance employees weekly wages (based upon a 40 hour week) to be adjusted each January. The weekly employee contribution for each part-time employee is 2.4% and 2.35%, respectively.

The Authority's contributions for each employee (and interest allocated to the employee's account) are fully vested after 10 years of service. The Authority's contributions to the Plan of $609,487 and $558,141 for the years ended June 30, 2016 and 2015, respectively, are included in employee benefits expense on the statements of revenues, expenses and changes in net position. Employee contributions totaled $518,827 and $443,204 for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 RISK MANAGEMENT

The Authority is exposed to various risks related to accident claims and has designated funds to finance portions of its uninsured risks of loss. The Authority is self-insured up to predetermined limits: individual accident claims up to $100,000 and amounts in excess of $5,900,000 per accident. The Authority carries commercial insurance coverage for damage to Authority property as well as workers' compensation benefits and public officials' and employees' liability exposure. Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss is reasonably estimated.

The liability recorded includes the estimated incremental expenses to be incurred to settle the claims. Claims liabilities are based on evaluations of individual claims and a review of the experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The claims liabilities represent the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Estimated future recoveries on settled and unsettled claims, such as subrogations, if any, are evaluated in terms of their estimated realizable value and deducted from the liabilities for unpaid claims. Any adjustments resulting from the actual settlement of the claims are reflected in earnings at the time the adjustments are determined.

Changes in the balance of accrued accident claims during fiscal 2016 and 2015 are as follows:

	Balance at Beginning of Fiscal Year	Claims Expense	Claims Payment	Balance at End of Fiscal Year
2016	$ 315,500	$ 249,261	$ (176,161)	$ 388,600
2015	$ 308,800	$ 183,725	$ (177,025)	$ 315,500

NOTE 9 FEDERAL, STATE AND LOCAL GRANTS

Grants, reimbursements and special fare assistance in the statements of activities for the years ended June 30 consist of the following:

	2016	2015
Federal:		
FTA operating assistance	$ 1,397,862	$ 1,706,357
Commonwealth of Kentucky:		
Cabinet fuel tax reimbursement	$ 142,980	$ 169,095
State operating assistance	106,239	115,858
Total Commonwealth of Kentucky	$ 249,219	$ 284,953
Local:		
Boone County	$ 3,975,491	$ 3,804,449
Campbell County	3,978,524	3,952,832
Kenton County	7,213,825	7,081,017
Total local	$ 15,167,840	$ 14,838,298

NOTE 10 OPERATING LEASES AND MANAGEMENT SERVICE CONTRACT

The Authority has cancelable operating leases executed in one-year intervals for office space and a non-cancelable operating lease for bus tires that expires in September 2018. Future minimum lease payments for bus tires are based on type of vehicle and number of miles driven. Total rental expense for all operating leases was $283,182 and $264,997 for the years ended June 30, 2016 and 2015, respectively.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal, State and Local Grants

Under the terms of the various grants, periodic audits are required where certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2016 there were no significant questioned costs that had not been resolved with the applicable federal, state and local agencies. Questioned costs could still be identified during the audits to be conducted in the future. In the opinion of the Authority's management, no material grant expenditures will be disallowed.

Legal Proceedings

The Authority has been named as a defendant in certain legal proceedings. Although the eventual outcome of these matters cannot be predicted, it is the opinion of management, based on the advice of legal counsel, that the ultimate liability is not expected to have a material effect on the Authority's financial position.

NOTE 12 CONSTRUCTION IN PROCESS

Construction in process is stated at cost, which includes the cost of acquisition and other direct costs attributable to the construction. No provision for depreciation is made on construction in process until such time as the relevant assets are completed and put into use. Construction in process represents the cost related to renovating the maintenance / administration facility and other capital equipment purchased which has not been placed in service or reimbursed by applicable federal, state or local grant. As of June 30, 2016 and 2015, construction in process was $230,160 and $19,515, respectively.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Number	Federal Expenditures
DEPARTMENT OF TRANSPORTATION			
Federal Transit Cluster (Direct Program)			
Federal Transit Administration - Capital			
and Operating Assistance Formula Grants	20.507	KY-90-X196	$ 325,048
	20.507	KY-90-X204	96,871
	20.507	KY-90-X212	3,225,735
	20.507	KY-90-X218	1,487,846
	20.507	KY-90-X225	731,967
Total Federal Transit Cluster			5,867,467
Transit Services Programs			
Job Access - Reverse Commute	20.516	KY-37-X018	99,389
Total Expenditures of Federal Awards			$ 5,966,856

NOTE 1 BASIS OF PRESENTATION

The schedule of expenditures of federal awards includes the federal grant activity of the Transit Authority of Northern Kentucky for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (*Uniform Guidance). Therefore, some amounts presented on this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. There were no awards passed through to subrecipients for the year ended June 30, 2016.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organization*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

The Transit Authority of Northern Kentucky has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Transit Authority of Northern Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Transit Authority of Northern Kentucky (TANK), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise TANK's basic financial statements, and have issued our report thereon dated October 6, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the TANK's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the TANK's internal control. Accordingly, we do not express an opinion on the effectiveness of the TANK's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TANK's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TANK's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

October 6, 2016
Crestview Hills, Kentucky

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Transit Authority of Northern Kentucky

Report on Compliance for Each Major Federal Program

We have audited the Transit Authority of Northern Kentucky's (TANK) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of TANK's major federal programs for the year ended June 30, 2016. The TANK's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of TANK's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TANK's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of TANK's compliance.

Opinion

In our opinion, TANK complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of TANK is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered TANK's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TANK's internal control over compliance.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)

Report on Internal Control over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Barnes, Dennig & Co., Ltd.

October 6, 2016
Crestview Hills, Kentucky

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None noted
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?		Yes	X	None noted

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.56 (a)?		Yes	X	No

Identification of Major Program(s):

CFDA Number(s)	Name of Federal Program or Cluster
20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: $750,000

Auditee qualified as low-risk auditee?	X	Yes		No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters are reportable.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters are reportable.

TRANSIT AUTHORITY OF NORTHERN KENTUCKY

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Reference Number	Summary of Finding	Status
	No matters are reportable	